

# Folsom proposes tax changes after ExxonMobil judgment cut

1/16/2008, 7:20 p.m. ET

**By PHILLIP RAWLS**

**The Associated Press**

MONTGOMERY, Ala. (AP) — Lt. Gov. Jim Folsom Jr. said the state's loss of nearly all the \$3.6 billion court judgment against Exxon Mobil demonstrates a need for the Legislature to rewrite Alabama's tax on oil and natural gas production.

"Alabama is blessed with wonderful natural resources, but we must require powerful corporations to pay a fair price if they are going to take advantage of our natural resources — like our oil and gas," Folsom said Wednesday.

Folsom raised the tax issue in what he called a letter "to the people of Alabama" and in an interview with The Associated Press.

A spokesman for the petroleum industry in Alabama said legislators should be cautious about any change. Dean Peeler, executive director of the Alabama Petroleum Council, said the state government and oil companies have worked together to develop the natural gas industry in Alabama, which has produced lots of revenue for the state.

"Clear thinking has prevailed in severance taxation since production began. Changing the metrics of the relationship would create disincentives for producers considering making risk-reward investment decisions," Peeler said.

In November, the Republican-dominated Alabama Supreme Court split along party lines in throwing out most of a \$3.6 billion judgment the state won against Exxon Mobil in a dispute over natural gas royalties due the state from wells drilled in state-owned waters along the Alabama coast. The Supreme Court's majority said there was no fraud by Exxon Mobil, and the large judgment was unjustified.

The state and Exxon Mobil are still feuding in court over the final amount the company will pay the state, but it apparently will be around \$122 million.

"If something is not one, the recent decision by the Alabama Supreme Court siding with Exxon and reversing an Alabama jury's mutli-billion-dollar verdict will have devastating consequences on the people of Alabama," the Democratic lieutenant governor said.

If the judgment had stood, Folsom said it could have funded Medicaid, state troopers, prisons and many other agencies of state government.

Alabama's tax on natural gas is currently a percentage of the value of the gas after it has been processed. Folsom said the Legislature should look at changing it in the upcoming session to a volume-based tax levied when the natural gas comes out of the ground.

Folsom said that would erase issues that came up in the Exxon Mobil dispute about what costs of production the company could charge off.

"That way Exxon will have to pay the same way you do — based on what they pump," Folsom said.

Folsom did not recommend any tax rate, but he made his intentions clear.

"I am against any tax increases on the hardworking people of Alabama. To keep this promise in light of this year's projected shortfalls in our state budgets, it is clear to me that Exxon must pay more," he said.

Peeler said some states use a volume-based tax like Folsom recommended, but as wells get older, their production declines and states receive less taxes. States with mature producing areas, like Alabama, generally do better with a value tax, particularly during periods of high energy prices, he said.

No matter whether the tax is on value or volume, the design is the key, Peeler said. If the tax is unreasonable, companies will cut their production and the state will lose out, he said.

"The caution here is that the state should not alter the relationship, forcing companies to shy away from making development investments, in effect, limiting the state's long-term benefit from the partnership," he said.